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1. *Startup makes a splash; Cryptocurrency firm Circle going public via SPAC merger*

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Startup makes a splash; Cryptocurrency firm Circle going public via SPAC merger

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Body

ABSTRACT

The deal values the Boston company at $4.5 billion. By merging with Concord Acquisition Corp., Circle's shares will be traded on the New York Stock Exchange without requiring the lengthy procedures of a traditional IPO.

BODY

Circle Internet Financial Ltd. said on Thursday that it would go public by merging with a special purpose acquisition company in a deal that values the cryptocurrency firm at $4.5 billion and reflects two of the hottest trends in finance.

Circle, based in Boston, will combine with Concord Acquisition Corp., a shell company formed to raise money and search for another company to buy. The deal will allow Circle to become a publicly traded company without going through the lengthy procedures of a traditional initial public offering.

SPACs are the latest fad in the mergers and acquisitions world. The amount of money raised this year by companies going public via SPACs already exceeds $112 billion, almost 50 percent more than was raised in all of 2020. And that doesn't include additional funds raised in debt offerings when the SPACs merge with target companies.

And while the price of bitcoin and other cryptocurrencies has been on the decline in recent weeks, the crypto startup sector is still attracting billions in fresh investments, including Circle's $440 million venture capital deal in May, the biggest private crypto deal of the year.

Circle also disclosed a variety of legal matters as part of Thursday's announcement.

The company said it is in the process of settling an investigation by the Securities and Exchange Commission into improper trading of some digital tokens. The settlement is expected to cost $10.4 million, Circle said. The company is also under investigation by the US Treasury Department's Office of Foreign Assets Control for possible violations of sanctions against Iran and faces ongoing arbitrations over $15 million of losses suffered in 2019 by customers trading in a digital currency called CLAM.

All three situations appear to have occurred at Poloniex, a cryptocurrency brokerage that Circle acquired in 2018 and sold just a year later, resulting in a loss of $157 million.

Separately, the company said it's locked in a dispute with one of its advisers, Financial Technology Partners, over fees for the SPAC deal. FT Partners is seeking 9 percent of what Circle shareholders receive, but no lawsuit has been filed yet, Circle said.

The bad news disclosures may be an effort by Circle to avoid problems that have cropped up at other companies that went public by merging with SPACs. For example, electric vehicle maker Nikola is under investigation by the SEC and Justice Department for possibly failing to disclose risks during its SPAC merger last year. Its stock price has plummeted. And in June, a prominent short-selling firm attacked DraftKings for failing to disclose problems at a software firm it acquired at the same time as its April 2020 SPAC merger.

Circle runs a platform to facilitate transactions in digital currencies like bitcoin. The company is also developing its own digital currency, called US Dollar Coin, or USDC. Unlike bitcoin and most other cryptocurrencies, Circle's USDC is a so-called stablecoin: Each USDC is backed by a dollar of standard US currency, so its price shouldn't see the wild swings that have hit other currencies.

Investors have quickly adopted Circle's stablecoin, with transaction volume totaling $640 billion over the past year. But questions remain about whether US banking regulators will step in and impose new restrictions that could smother the incipient market.

By holding dollars in escrow to back all of its digital stablecoins, Circle is in some ways acting like a money market fund or a bank but with much less oversight, some critics said.

"Despite trying to position itself as the 'good' stablecoin that follows the rules, its business model is still fundamentally one of a ***shadow bank***, and will remain unstable until regulators recognize and treat it as a proper bank, with all the protections and oversight that entails," said Rohan Grey, a law professor at Willamette University who follows the sector.

Circle's other businesses, helping people transact in all kinds of digital currencies, also have promise. Credit card giant Visa said this week that consumers spent more than $1 billion of ***cryptocurrency*** linked to Visa credit cards in the first half of 2021. Circle is a Visa partner, allowing credit card users and retailers to transact in digital currencies.

"Circle is focused on an attractive part of the crypto-ecosystem," said Lisa Ellis, who follows the payments sector at Wall Street firm MoffettNathanson Research. However, "we are likely in the earlier stages of a so-called 'crypto-winter,' when interest in cryptocurrencies may wane over the next year-plus after the huge surge in late 2020 to early 2021. It strikes me as a bit early for Circle to [be] listing on the public markets."

As part of the merger, Circle will raise almost $700 million in fresh capital from investors including Marshall Wace LLP, Fidelity Management & Research Company LLC, and Adage Capital Management LP.

The new money will fuel Circle's growth into new areas, cofounder and chief executive Jeremy Allaire said.

"Through this strategic transaction and ultimate public debut, we are taking an even bigger step forward, with the capital and relationships needed to build a global-scale Internet financial services company that can help businesses everywhere to connect into a more open, inclusive and effective global economic system," Allaire said in a statement.

The company's new stock ticker will be "CRCL." The merger is expected to be completed by the end of the year. Shares of Concord Acquisition Corp. gained 7 percent to close at $10.57 on Thursday.

One difference between a traditional IPO and a SPAC merger is that a company going public via the traditional method typically does not offer forecasts of future results but merging companies can.

Circle disclosed that its revenue totaled $15 million last year. It added a forecast that its revenue would reach $115 million for 2021 and hit $886 million by 2023. And while it forecast a loss of $76 million in adjusted earnings before interest, taxes, depreciation, and amortization for 2021, it said it expected to have a profit of $76 million in 2023 on that basis.

Circle's public listing will follow the debut of rival Coinbase, which started trading on the Nasdaq in April. Shares of Coinbase have fallen 28 percent since the first day of trading April 14.

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